

**SPENCER  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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**SPENCER COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2005 Election)

Ross Brockshus	President	2006
Randy Van Dyke	Vice President	2007
Susan Harman		2005
David Schlichtmeier		2006
Scott DeGeest		2005

(After September, 2005 Election)

Randy Van Dyke	President	2007
David Schlichtmeier	Vice President	2006
Dean Mechler		2005
Ross Brockshus		2008
Les Zobrist		2008

**SCHOOL OFFICIALS**

Greg Ebeling	Superintendent
Sharon Slawson	District Secretary
Ted Bauer	District Treasurer

## Independent Auditor's Report

To The Board of Education of the  
Spencer Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spencer Community School District, Spencer, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spencer Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 17, 2006 on our consideration of Spencer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spencer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed qualified opinion on those financial statements, due to the inability to satisfy ourselves about inventory quantities. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

October 17, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SPENCER COMMUNITY SCHOOL DISTRICT

Spencer Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### 2006 FINANCIAL HIGHLIGHTS

- A very detailed budget cut process was implemented in the 2004-05 school year. The budget needed to be cut by approximately \$1,000,000 dollars. Many meetings were held with staff, administration and citizens of the District. These meetings helped to prioritize the needed services not only from the point of view of staff, but the community as well. In fiscal 2006, the District's General Fund increased over \$300,000 (21%). This was due in large part to this process.
- The District enhanced its early retirement policy to enable budget cuts in staff to be completed with attrition.
- The new science wing at the High School was ready for occupation beginning with the 2005-06 school year.
- The new middle school is to house students in August 2006.
- The District moved the alternative high school to the administration building and is renting space in the administration building to save money and better utilize facilities.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide *financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the *short term*, as well as, what remains for future spending.
- The statement for *proprietary funds* offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Spencer Community School District***

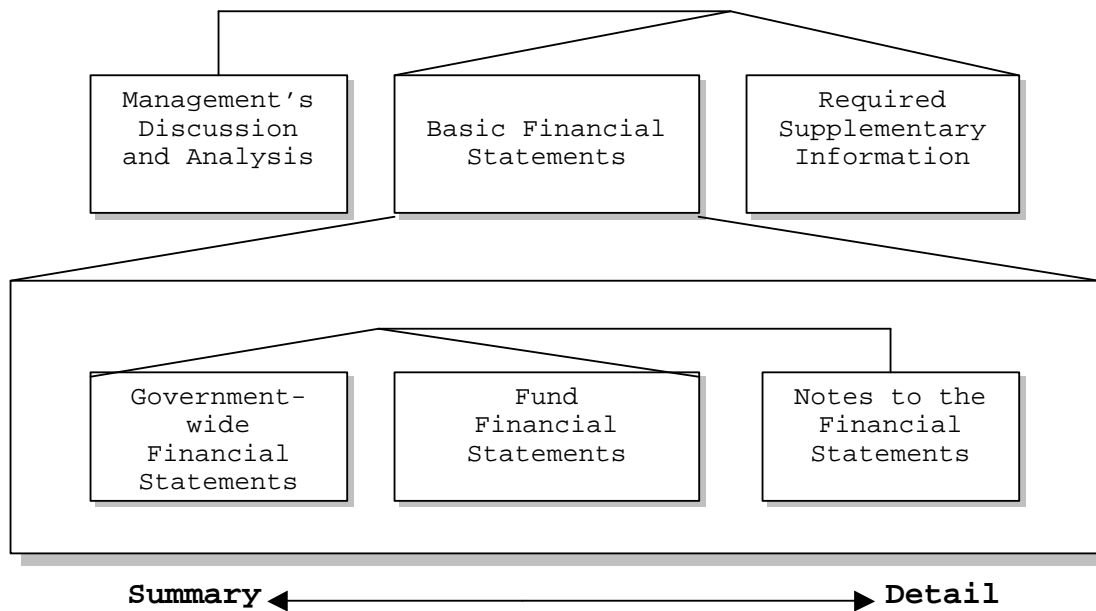


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> <li>. Statement of Net Assets</li> <li>. Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>. Balance sheet</li> <li>. Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>. Statement of Net Assets</li> <li>. Statement of Revenues, Expenses and Changes in Net Assets</li> <li>. Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The two government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

Figure A-3  
Condensed Statement of Net Assets  
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	%
Current assets	12,509	20,622	123	123	12,632	20,745	-64.23%
Capital assets	17,455	9,658	37	37	17,492	9,695	44.57%
<b>Total assets</b>	<u>29,964</u>	<u>30,280</u>	<u>160</u>	<u>160</u>	<u>30,124</u>	<u>30,440</u>	<u>-1.05%</u>
Current liabilities	7,052	7,365	8	8	7,060	7,373	-4.43%
Non-current liabilities	10,163	10,071	-	-	10,163	10,071	0.91%
<b>Total liabilities</b>	<u>17,215</u>	<u>17,436</u>	<u>8</u>	<u>8</u>	<u>17,223</u>	<u>17,444</u>	<u>-1.28%</u>
Net Assets							
Invested in capital assets, net of related debt	7,815	9,328	37	37	7,852	9,365	-19.27%
Restricted	3,504	2,191	-	-	3,504	2,191	37.47%
Unrestricted	<u>1,430</u>	<u>1,325</u>	<u>115</u>	<u>115</u>	<u>1,545</u>	<u>1,440</u>	<u>6.80%</u>
<b>Total net assets</b>	<u>12,749</u>	<u>12,844</u>	<u>152</u>	<u>152</u>	<u>12,901</u>	<u>12,996</u>	<u>-0.74%</u>

The District's combined net assets were virtually unchanged from the prior year. Increased capital assets came as a result of using current restricted resources, primarily for the middle school construction project.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

**Figure A-4**  
**Change in Net Assets**  
**(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Total Change</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-06</b>
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	1,113	1,101	491	489	1,604	1,590	0.88%
Operating grants, contributions and restricted interest	2,342	2,180	351	292	2,693	2,472	8.94%
Capital grants, contributions and restricted interest	100	1,786	-	-	100	1,786	-94.40%
General revenues:							
Property tax	5,706	5,337	-	-	5,706	5,337	6.91%
Local option sales tax	928	2,477	-	-	928	2,477	-62.54%
Unrestricted state grants	7,681	7,074	-	-	7,681	7,074	8.58%
Unrestricted investment earnings	135	52	-	-	135	52	159.62%
Other	323	20	-	-	323	20	1515.00%
Total revenues	<u>18,328</u>	<u>20,027</u>	<u>842</u>	<u>781</u>	<u>19,170</u>	<u>20,808</u>	<u>-7.87%</u>
Program expenses:							
Governmental activities:							
Instruction	11,499	11,050	-	-	11,499	11,050	4.06%
Support Services	3,937	4,079	-	-	3,937	4,079	-3.48%
Non-instructional programs	-	34	835	769	835	803	3.99%
Other expenses	2,988	3,419	-	-	2,988	3,419	-12.61%
Total expenses	<u>18,424</u>	<u>18,582</u>	<u>835</u>	<u>769</u>	<u>19,259</u>	<u>19,351</u>	<u>-0.48%</u>
Change in net assets	<u>(96)</u>	<u>1,445</u>	<u>7</u>	<u>12</u>	<u>(89)</u>	<u>1,457</u>	<u>-106.11%</u>

Property tax, local option sales tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 80% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$18,328,171 and expenses were \$18,423,830. In a difficult budget year the District balanced the budget by reducing discretionary spending and seeking out alternative revenue sources, such as grants. Revenues and expenses decreased by over 10% due to the middle school building project drawing to a close.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
 (expressed in thousands)

	Total Cost of Services		Net Cost of Services		Net Change
	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	%
Instruction	11,499	11,050	9,207	8,399	9.62%
Support Services	3,937	4,079	3,544	4,051	-12.52%
Non-instructional programs	-	34	-	34	-100.00%
Other expenses	<u>2,988</u>	<u>3,419</u>	<u>2,118</u>	<u>1,031</u>	<u>105.43%</u>
Totals	<u>18,424</u>	<u>18,582</u>	<u>14,869</u>	<u>13,515</u>	<u>10.02%</u>

- The cost financed by users of the District's programs was \$1,112,866.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$966,470.
- The net cost of governmental activities was financed with \$5,705,429 in property tax, \$7,680,854 in state foundation aid, \$927,646 in local option sales tax and \$135,646 in interest income.

#### **Business Type Activities**

Revenues of the District's business type activities were \$842,355 and expenses were \$835,640. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Increases in Federal meal reimbursements and cost containment measures contributed to the nutrition fund financial status.

#### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As previously noted the Spencer Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of 12,748,907, 1% less than last year's ending fund balances of \$12,844,566.

The District used current resources to purchase fixed assets that will be depreciated over the useful lives of the assets. This trend will begin to reverse as major building projects are completed.

#### **Governmental Fund Highlights**

- The District maintained its General Fund balance by cutting expenses from portions of the budget that were not already obligated, such as supplies and maintenance items. The early retirement policy was also enhanced to enable budget cuts by attrition.
- With the passage of the bond issue and the use of LOSST dollars construction of the Middle School began. We are pleased with the progress thus far.

## Proprietary Fund Highlights

Federal reimbursements increased due to price increases in Federal nutrition programs.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 32 and 34.

## Legal Budgetary Highlights

The District's total actual receipts were approximately \$230,000 less than the total budgeted receipts, a variance of less than 1%. The most significant change resulted in the District receiving less in various components of federal aid than originally anticipated. This was partially offset by higher than anticipated revenue from miscellaneous revenues.

Total expenditures were less it total than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending through its line item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2006, the District has invested more than \$25,000,000 in a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded \$670,000.

Figure A-6  
Condensed Statement of Net Assets  
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	10	10	-	-	10	10	0.00%
Site improvements	36	39	-	-	36	39	-7.69%
Buildings	1,405	1,452	-	-	1,405	1,452	-3.24%
Furniture and equipment	104	133	-	-	104	133	-21.80%
Construction in progress	286	-	-	-	286	-	#DIV/0!
Totals	<u>1,841</u>	<u>1,634</u>	<u>-</u>	<u>-</u>	<u>1,841</u>	<u>1,634</u>	<u>12.67%</u>

## Long - Term Debt

The District has \$3,740,000 in outstanding general obligation bonds for the construction of a new middle school building. These bonds have an average interest rate of 4.65%. They will be paid off over the next 19 years.

The District issued \$5,900,000 in revenue bonds for the construction of the new middle school building. These funds have an average interest rate of 4.18%. They will be paid off over the next 10 years with proceeds from the 1% Clay County school infrastructure local option sales tax.

**Figure A-7**  
**Outstanding Long-Term Obligations**  
**(expressed in thousands)**

Total		Total
District		Change
June 30,		June 30,
2006	2005	2005-2006
\$	\$	
General obligation bonds	<u>2,435</u>	<u>2,630</u> <u>-7.41%</u>

## FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District will continue to seek out new sources of revenue, such as At-Risk Allowable Growth, Instructional Support Levy, and other grants that may be available for additional revenues.
- Future enrollment stability is a critical element in maintaining a sound financial foundation. The District continues to work with other city leaders to enhance economic development in order to increase student enrollment.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). Employee wage and benefit settlements exceeding the growth rate in State funding will continue to force the District to consider additional budget reductions to balance the General Fund budget. A solution to be found.
- The District has committed to a remodeling project for Family and Consumer Sciences.
- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act, and "GASB 34" to name a few.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Greg Ebeling, Superintendent, Spencer Community School District, 23 East 7<sup>th</sup> Street, Spencer, Iowa 51301.

## Basic Financial Statements

## SPENCER COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	5,930,265	84,411	6,014,676
Receivables:			
Property tax			
Current year	57,000	-	57,000
Succeeding year	5,857,377	-	5,857,377
Due from other governments	437,922	4,070	441,992
Other receivables	226,103	-	226,103
Inventories	-	19,502	19,502
Capital assets, net of accumulated depreciation (note 6)	17,455,282	59,591	17,514,873
<b>Total assets</b>	<b>29,963,949</b>	<b>167,574</b>	<b>30,131,523</b>
<b>Liabilities</b>			
Accounts payable	669,187	96	669,283
Retainage payable	442,925	-	442,925
Accrued salary and benefits	50,679	-	50,679
Unearned revenue	-	8,913	8,913
Accrued interest payable	31,527	-	31,527
Deferred revenue:			
Succeeding year property tax	5,857,377	-	5,857,377
Long term liabilities:			
Portion due within one year:			
Compensated absences	33,625	-	33,625
Early retirement	326,481	-	326,481
General obligation bonds	140,000	-	140,000
Revenue bonds	650,000	-	650,000
Portion due after one year:			
Early retirement	163,241	-	163,241
General obligation bonds	3,600,000	-	3,600,000
Revenue bonds	5,250,000	-	5,250,000
<b>Total liabilities</b>	<b>17,215,042</b>	<b>9,009</b>	<b>17,224,051</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	7,815,282	59,591	7,874,873
Restricted for:			
Management levy	157,405	-	157,405
Physical plant and equipment levy	807,503	-	807,503
Capital projects	1,921,668	-	1,921,668
Debt service	617,351	-	617,351
Unrestricted	1,429,698	98,974	1,528,672
<b>Total net assets</b>	<b>12,748,907</b>	<b>158,565</b>	<b>12,907,472</b>

See notes to financial statements.



## SPENCER COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

	Program Revenues						Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$	\$
Functions/Programs							
Governmental activities:							
Instruction:	11,498,541	1,112,866	1,178,826	-	(9,206,849)	-	(9,206,849)
Support services:							
Student services	138,449	-	-	-	(138,449)	-	(138,449)
Instructional staff services	269,397	-	-	-	(269,397)	-	(269,397)
Administration services	1,723,444	-	-	-	(1,723,444)	-	(1,723,444)
Operation and maintenance of plant services	1,354,485	-	372,014	-	(982,471)	-	(982,471)
Transportation services	451,547	-	20,970	-	(430,577)	-	(430,577)
	3,937,322	-	392,984	-	(3,544,338)	-	(3,544,338)
Other expenditures:							
Facilities acquisition	1,326,037	-	165,687	100,000	(1,060,350)	-	(1,060,350)
AEA flowthrough	601,508	-	601,508	-	-	-	-
Long-term debt interest	392,519	-	3,114	-	(389,405)	-	(389,405)
Long-term debt services	600	-	-	-	(600)	-	(600)
Depreciation (unallocated)*	667,303	-	-	-	(667,303)	-	(667,303)
	2,987,967	-	770,309	100,000	(2,117,658)	-	(2,117,658)
Total governmental activities	18,423,830	1,112,866	2,342,119	100,000	(14,868,845)	-	(14,868,845)

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues						
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
	\$	\$	\$	\$	\$	\$	\$
Business type activities:							
Non-instructional programs							
Nutrition services	835,640	491,188	351,167	-	-	6,715	6,715
Total	<u>19,259,470</u>	<u>1,604,054</u>	<u>2,693,286</u>	<u>100,000</u>	<u>(14,868,845)</u>	<u>6,715</u>	<u>(14,862,130)</u>
General revenues:							
Property tax levied for:							
General purposes					4,540,872	-	4,540,872
Management Fund					450,048	-	450,048
Capital outlay					407,634	-	407,634
Debt service					306,875	-	306,875
School Infrastructure Local							
Option Sales Tax					927,646	-	927,646
Unrestricted state grants					7,680,854	-	7,680,854
Unrestricted investment earnings					135,646	-	135,646
Other					<u>323,611</u>	<u>-</u>	<u>323,611</u>
Total general revenue					<u>14,773,186</u>	<u>-</u>	<u>14,773,186</u>
Change in net assets					(95,659)	6,715	(88,944)
Net assets beginning of year					<u>12,844,566</u>	<u>151,850</u>	<u>12,996,416</u>
Net assets end of year					<u>12,748,907</u>	<u>158,565</u>	<u>12,907,472</u>

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Cash and pooled investments	1,612,520	838,863	614,327	2,515,285	349,270	5,930,265
Receivables:						
Property tax:						
Current year	45,426	4,048	3,024	-	4,502	57,000
Succeeding year	4,771,648	431,494	304,235	-	350,000	5,857,377
Due from other governments	151,712	-	-	286,210	-	437,922
Other receivables	226,103	-	-	-	-	226,103
Inventories	-	-	-	-	-	-
<b>Total assets</b>	<u>6,807,409</u>	<u>1,274,405</u>	<u>921,586</u>	<u>2,801,495</u>	<u>703,772</u>	<u>12,508,667</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	193,822	35,408	-	436,902	3,055	669,187
Retainage payable	-	-	-	442,925	-	442,925
Accrued salary and benefits	50,679	-	-	-	-	50,679
Deferred revenue:						
Succeeding year property tax	4,771,648	431,494	304,235	-	350,000	5,857,377
Total liabilities	<u>5,016,149</u>	<u>466,902</u>	<u>304,235</u>	<u>879,827</u>	<u>353,055</u>	<u>7,020,168</u>
Fund balances:						
Reserved for:						
Debt service	-	-	617,351	-	-	617,351
Construction project	-	-	-	1,921,668	-	1,921,668
Unreserved	1,791,260	807,503	-	-	350,717	2,949,480
Total fund balances	<u>1,791,260</u>	<u>807,503</u>	<u>617,351</u>	<u>1,921,668</u>	<u>350,717</u>	<u>5,488,499</u>
<b>Total liabilities and fund balances</b>	<u>6,807,409</u>	<u>1,274,405</u>	<u>921,586</u>	<u>2,801,495</u>	<u>703,772</u>	<u>12,508,667</u>

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2006

<b>Total fund balances of governmental funds (Exhibit C)</b>	<b>\$ 5,488,499</b>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	17,455,282
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(31,527)
Long-term liabilities, including compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Compensated absences	(33,625)
Early retirement	(489,722)
General obligation bonds	(3,740,000)
Sales tax revenue bonds	<u>(5,900,000)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<b><u>\$ 12,748,907</u></b>

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	4,540,872	407,634	306,875	927,646	450,048	6,633,075
Tuition	1,112,866	-	-	-	-	1,112,866
Other	459,257	366,616	2,836	165,687	339,002	1,333,398
State sources	8,375,703	372	278	-	417	8,376,770
Federal sources	772,062	100,000	-	-	-	872,062
Total revenues	<u>15,260,760</u>	<u>874,622</u>	<u>309,989</u>	<u>1,093,333</u>	<u>789,467</u>	<u>18,328,171</u>
Expenditures:						
Instruction:	<u>10,567,917</u>	<u>72,901</u>	<u>-</u>	<u>-</u>	<u>630,124</u>	<u>11,270,942</u>
Support services						
Student services	136,156	-	-	-	2,293	138,449
Instructional staff services	268,221	-	-	-	1,176	269,397
Administration services	1,705,741	-	-	-	17,954	1,723,695
Operation and maintenance of plant services	1,254,269	2,621	-	-	97,595	1,354,485
Transportation services	413,847	148,994	-	-	41,034	603,875
	<u>3,778,234</u>	<u>151,615</u>	<u>-</u>	<u>-</u>	<u>160,052</u>	<u>4,089,901</u>

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
Facilities acquisition and construction services	-	715,983	-	8,922,517	-	9,638,500
Long-term debt:						
Principal	-	-	135,000	-	-	135,000
Interest	-	-	393,810	-	-	393,810
Services	-	-	600	-	-	600
AEA flowthrough	601,508	-	-	-	-	601,508
	<u>601,508</u>	<u>715,983</u>	<u>529,410</u>	<u>8,922,517</u>	<u>-</u>	<u>10,769,418</u>
Total expenditures	<u>14,947,659</u>	<u>940,499</u>	<u>529,410</u>	<u>8,922,517</u>	<u>790,176</u>	<u>26,130,261</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>313,101</u>	<u>(65,877)</u>	<u>(219,421)</u>	<u>(7,829,184)</u>	<u>(709)</u>	<u>(7,802,090)</u>
Other financing sources (uses):						
Operating transfers in	-	-	836,772	1,142,184	-	1,978,956
Operating transfers out	-	(1,142,184)	-	(836,772)	-	(1,978,956)
Total other financing sources	<u>-</u>	<u>(1,142,184)</u>	<u>836,772</u>	<u>305,412</u>	<u>-</u>	<u>-</u>
Net change in fund balances	313,101	(1,208,061)	617,351	(7,523,772)	(709)	(7,802,090)
Fund balances beginning of year	<u>1,478,159</u>	<u>2,015,564</u>	<u>-</u>	<u>9,445,440</u>	<u>351,426</u>	<u>13,290,589</u>
Fund balances end of year	<u>1,791,260</u>	<u>807,503</u>	<u>617,351</u>	<u>1,921,668</u>	<u>350,717</u>	<u>5,488,499</u>

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2006

**Net change in fund balances - total governmental funds (Exhibit E)** \$ (7,802,090)

**Amounts reported for governmental activities in the  
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 8,464,791	
Depreciation expense	<u>(667,303)</u>	7,797,488

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,291

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General obligation bonds		135,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ (227,599)	
Compensated absences	<u>251</u>	<u>(227,348)</u>

**Change in net assets of governmental activities (Exhibit B)** \$ (95,659)

## SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>491,188</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	326,375
Benefits	95,351
Services	1,195
Supplies	404,620
Depreciation	<u>8,099</u>
Total operating expenses	<u>835,640</u>
Operating (loss)	<u>(344,452)</u>
Non-operating revenues:	
Interest on investments	3,817
State sources	9,616
Federal sources	<u>337,734</u>
	<u>351,167</u>
Change in net assets	6,715
Net assets beginning of year	<u>151,850</u>
Net assets end of year	<u><u>158,565</u></u>

See notes to financial statements.



## SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	487,705
Cash payments to employees for services	(421,726)
Cash payments to suppliers for goods or services	(352,570)
Net cash provided by (used in) operating activities	<u>(286,591)</u>
Cash flows from non-capital financing activities:	
State grants received	9,616
Federal grants received	287,192
Net cash provided by non-capital financing activities	<u>296,808</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(31,147)
Cash flows from investing activities:	
Interest on investments	<u>3,817</u>
Net increase (decrease) in cash and cash equivalents	(17,113)
Cash and cash equivalents beginning of year	<u>101,524</u>
Cash and cash equivalents end of year	<u><u>84,411</u></u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>	
Operating income (loss)	(344,452)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	8,099
Commodities used	50,542
(Increase) in other receivables	(4,070)
Decrease in inventory	2,607
Increase in accounts payable	96
Increase in unearned revenue	587
	<u>(286,591)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash	<u><u>84,411</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received federal commodities valued at \$50,542.

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Spencer Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Spencer, Iowa, and agricultural territory in Clay County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Spencer Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Spencer Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clay County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - This represents money received by the District but not yet earned. It includes School Nutrition Fund lunch ticket credits of \$8,913.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amounts budgeted in the support services and non-instructional program functions.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$2,558</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk - The investments in the Iowa School Joint Investment Trust were both rated Aaa by Moody's Investors Service.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>618,197</u>	<u>21,102</u>	<u>-</u>	<u>639,299</u>
Capital assets being depreciated:				
Buildings	10,902,585	533,475	-	11,436,060
Improvements other than buildings	782,303	67,175	-	849,478
Furniture and Equipment	3,824,422	370,762	152,365	4,042,819
Construction in progress	<u>1,052,100</u>	<u>7,472,277</u>	<u>-</u>	<u>8,524,377</u>
Total capital assets being depreciated	<u>16,561,410</u>	<u>8,443,689</u>	<u>152,365</u>	<u>24,852,734</u>
Less accumulated depreciation for:				
Buildings	4,234,517	224,121	-	4,458,638
Improvements other than buildings	306,588	32,619	-	339,207
Furniture and Equipment	<u>2,980,708</u>	<u>410,563</u>	<u>152,365</u>	<u>3,238,906</u>
Total accumulated depreciation	<u>7,521,813</u>	<u>667,303</u>	<u>152,365</u>	<u>8,036,751</u>
Total capital assets being depreciated, net	<u>9,039,597</u>	<u>7,776,386</u>	<u>-</u>	<u>16,815,983</u>
Governmental activities, capital assets, net	<u><u>9,657,794</u></u>	<u><u>7,797,488</u></u>	<u><u>-</u></u>	<u><u>17,455,282</u></u>
<b>Business type activities:</b>				
Furniture and equipment	295,579	31,147	-	326,726
Less accumulated depreciation	<u>259,036</u>	<u>8,099</u>	<u>-</u>	<u>267,135</u>
Business type activities capital assets, net	<u><u>36,543</u></u>	<u><u>23,048</u></u>	<u><u>-</u></u>	<u><u>59,591</u></u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u><u>667,303</u></u>
Business Type activities:				
Food service operations				<u><u>8,099</u></u>

### (4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$571,392, \$571,266, and \$547,169 respectively, equal to the required contributions for each year.

**(5) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$601,508 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(6) Risk Management**

Spencer Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation bonds	\$ 3,875,000	-	135,000	3,740,000	140,000
Revenue bonds	5,900,000	-	-	5,900,000	650,000
Early retirement	<u>262,123</u>	<u>492,813</u>	<u>265,214</u>	<u>489,722</u>	<u>326,481</u>
Total	<u>\$10,037,123</u>	<u>492,813</u>	<u>400,214</u>	<u>10,129,722</u>	<u>1,116,481</u>

**(8) Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have reached the age of 55 when the benefit is elected and must have completed at least 10 years of continuous full-time service in the district. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 30% of their full time equivalent salary (note including extended contract and extra duty pay amounts). Benefits may be placed in a bona fide 4031 plan or applied to the cost of health insurance offered through the district's group health insurance plan. Benefits for part time employees will be determined on a prorata basis. Early retirement benefits paid during the year ended June 30, 2006 totaled \$44,808. The cost of early retirement benefits expected to be paid both currently and long-term are recorded as long-term liabilities on the Statement of Net Assets (Exhibit A).



**(9) General Obligation Bonds Payable**

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates %	Interest \$	Principal \$	Total \$
2007	3.65	163,835	140,000	303,835
2008	3.65	158,725	150,000	308,725
2009	3.85	153,250	155,000	308,250
2010	4.00	147,283	160,000	307,283
2011	4.20	140,883	170,000	310,883
2012-2016	4.20-4.30	590,607	955,000	1,545,607
2017-2021	4.35-4.65	365,590	1,175,000	1,540,590
2022-2024	4.75-4.90	<u>82,098</u>	<u>835,000</u>	<u>917,098</u>
Total		<u>1,802,271</u>	<u>3,740,000</u>	<u>5,542,271</u>

**(10) Revenue Bonds Payable**

Details of the District's June 30, 2006 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates %	Interest \$	Principal \$	Total \$
2007	3.25	214,485	650,000	864,485
2008	3.50	192,197	670,000	862,197
2009	3.75	167,535	690,000	857,535
2010	3.90	140,655	715,000	855,655
2011	3.90	112,185	745,000	857,185
2012	3.95	82,352	775,000	857,352
2013	4.00	50,846	810,000	860,846
2014	4.10	<u>17,323</u>	<u>845,000</u>	<u>862,323</u>
Total		<u>977,578</u>	<u>5,900,000</u>	<u>6,877,578</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

**(11) Commitments**

The District is currently constructing a new middle school building and remodeling the central office. As of June 30, 2006 the following commitments had been made.

	<u>MS Building</u>	<u>Central Office</u>
Total bids awarded	\$10,098,417	\$128,898
Total project completed	9,479,267	35,543
Total amounts retained	441,148	1,777
Total amounts paid to date	8,620,353	14,631
Total amount currently payable	417,768	19,134
Balance to complete	\$ 619,149	\$ 60,949

The district has also accepted bids totaling \$264,778 on other projects.

**(12) Interfund Transfers**

The detail of interfund transfers for the year ending June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	Capital projects	\$ <u>839,772</u>
Capital Projects	Physical plant and equipment levy	\$ <u>1,142,184</u>

## Required Supplementary Information

**SPENCER COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	9,079,339	495,005	9,574,344	9,197,623	9,197,623	376,721
State sources	8,376,770	9,616	8,386,386	8,499,613	8,499,613	(113,227)
Federal sources	<u>872,062</u>	<u>337,734</u>	<u>1,209,796</u>	<u>1,032,938</u>	<u>1,032,938</u>	<u>176,858</u>
Total revenues	<u>18,328,171</u>	<u>842,355</u>	<u>19,170,526</u>	<u>18,730,174</u>	<u>18,730,174</u>	<u>440,352</u>
Expenditures:						
Instruction	11,270,942	-	11,270,942	12,246,111	12,246,111	975,169
Support services	4,089,901	-	4,089,901	4,036,343	4,036,343	(53,558)
Non-instructional programs	-	835,640	835,640	793,257	793,257	(42,383)
Other expenditures	<u>10,769,418</u>	<u>-</u>	<u>10,769,418</u>	<u>10,994,419</u>	<u>10,994,419</u>	<u>225,001</u>
Total expenditures	<u>26,130,261</u>	<u>835,640</u>	<u>26,965,901</u>	<u>28,070,130</u>	<u>28,070,130</u>	<u>1,104,229</u>
Excess (deficiency) of revenues over (under) expenditures	(7,802,090)	6,715	(7,795,375)	(9,339,956)	(9,339,956)	1,544,581
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(7,802,090)	6,715	(7,795,375)	(9,339,956)	(9,339,956)	1,544,581
Balance beginning of year	<u>13,290,589</u>	<u>151,850</u>	<u>13,442,439</u>	<u>10,423,984</u>	<u>10,423,984</u>	<u>3,018,455</u>
Balance end of year	<u><u>5,488,499</u></u>	<u><u>158,565</u></u>	<u><u>5,647,064</u></u>	<u><u>1,084,028</u></u>	<u><u>1,084,028</u></u>	<u><u>4,563,036</u></u>

See accompanying independent auditor's report.

**SPENCER COMMUNITY SCHOOL DISTRICT**

**Notes to Required Supplementary Information - Budgetary Reporting**

**Year ended June 30, 2006**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures exceeded the amounts budgeted in the support services and non-instructional programs functions. The District did not exceed the General Fund unspent authorized budget.

## Other Supplementary Information

## SPENCER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	152,903	196,367	349,270
Property tax receivable:			
Current year	4,502	-	4,502
Succeeding year	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Total assets	<u>507,405</u>	<u>196,367</u>	<u>703,772</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable	-	3,055	3,055
Deferred revenue:			
Succeeding year property tax	<u>350,000</u>	<u>-</u>	<u>350,000</u>
	<u>350,000</u>	<u>3,055</u>	<u>353,055</u>
Fund balance:			
Unreserved fund balance	<u>157,405</u>	<u>193,312</u>	<u>350,717</u>
	<u>157,405</u>	<u>193,312</u>	<u>350,717</u>
Total liabilities and fund balance	<u>507,405</u>	<u>196,367</u>	<u>703,772</u>

See accompanying independent auditor's report.

## SPENCER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	450,048	-	450,048
Other	4,609	334,393	339,002
State sources	417	-	417
Total revenues	<u>455,074</u>	<u>334,393</u>	<u>789,467</u>
Expenditures:			
Instruction:	340,882	289,242	630,124
Support services:			
Student support services	2,293	-	2,293
Instructional staff support	1,176	-	1,176
Administration services	17,887	67	17,954
Plant operation and maintenance	91,422	6,173	97,595
Student transportation	19,517	21,517	41,034
Non-instructional programs:			
Food service operations	-	-	-
Total expenditures	<u>473,177</u>	<u>316,999</u>	<u>790,176</u>
Excess (deficiency) of revenues over (under) expenditures	(18,103)	17,394	(709)
Fund balances beginning of year	<u>175,508</u>	<u>175,918</u>	<u>351,426</u>
Balance end of year	<u>157,405</u>	<u>193,312</u>	<u>350,717</u>

See accompanying independent auditor's report.



## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
<b>System Wide</b>				
Assemblies	256	-	-	256
Concessions	2,840	28,344	30,826	358
Special Events	1,004	-	-	1,004
Staff Courtesy	6,878	19	-	6,897
Drug Free Fundraiser	2,273	-	-	2,273
Clearing	-	-	37	(37)
	<u>13,251</u>	<u>28,363</u>	<u>30,863</u>	<u>10,751</u>
<b>Middle School</b>				
Band	486	-	-	486
Special Education Fundraiser	51	-	-	51
Staff Courtesy	1,169	1,016	716	1,469
Student Council	2,789	2,280	3,876	1,193
Photo Club	6,073	13,877	9,459	10,491
	<u>10,568</u>	<u>17,173</u>	<u>14,051</u>	<u>13,690</u>
<b>Elementary</b>				
At Risk Cycle	-	500	437	63
Jump Rope for Heart	3,973	-	962	3,011
Art/Technology	782	-	-	782
Reading	397	-	-	397
Success	130	-	-	130
Take Home Bags	51	-	-	51
<b>Fairview:</b>				
Photo Club	986	1,538	605	1,919
Art/Technology	208	-	-	208
<b>Jefferson:</b>				
Staff Courtesy	46	-	-	46
Photo Club	380	-	-	380
<b>Johnson:</b>				
Staff Courtesy	972	1,556	1,592	936
Student Council	-	500	212	288
Photo Club	12	6,794	5,925	881
Johnson Store	72	157	-	229
Art/Technology	183	-	-	183
Computer Club	1,626	-	-	1,626
<b>Lincoln:</b>				
Special Education Fundraiser	1,831	-	344	1,487
Staff Courtesy	26	58	-	84
Environment Club	192	-	-	192
Photo Club	1,396	841	482	1,755
Computer Club	390	-	-	390
	<u>13,653</u>	<u>11,944</u>	<u>10,559</u>	<u>15,038</u>

## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
<b>High School</b>				
Drama	5,728	11,568	10,838	6,458
Speech Club	-	19,177	13,926	5,251
Vocal	12,238	25,391	25,610	12,019
Band	505	3,611	3,105	1,011
Band/Choir	-	8,211	8,211	-
Intramurals	1,134	1,499	1,595	1,038
Track	7,460	6,663	6,580	7,543
Cross Country	2,911	787	893	2,805
Boys Basketball	7,263	8,000	6,390	8,873
Football	15,775	18,161	19,357	14,579
Athletic Enhancement	2,253	3,325	4,392	1,186
Baseball	6,518	9,317	7,740	8,095
Boys Track	-	1,338	1,270	68
Boys Swimming	2,366	2,500	2,222	2,644
Boys Tennis	1,648	1,000	1,133	1,515
Boys Golf	2,008	1,000	1,138	1,870
Boys Soccer	3,941	7,000	4,056	6,885
Wrestling	6,685	7,808	7,301	7,192
Girls Basketball	7,683	6,000	6,222	7,461
Volleyball	4,344	7,171	6,515	5,000
Softball	6,201	5,646	5,391	6,456
Girls Swimming	2,843	6,832	6,647	3,028
Girls Tennis	2,565	-	134	2,431
Girls Golf	1,579	1,073	1,015	1,637
Girls Soccer	3,393	1,999	2,292	3,100
General Athletics	213	9,279	8,808	684
Athletic Revolving	1,401	7,947	8,637	711
Tourney and Hosted Events	326	38,339	38,122	543
FFA	4,443	5,605	4,993	5,055
Business Management	497	-	-	497
Staff Courtesy	1,405	2,554	2,114	1,845
Custodial	658	1,245	1,340	563
Environment Club	195	-	-	195
Student Council	4,632	10,710	7,404	7,938
Pep Club	1,967	3,439	2,937	2,469
German Club	320	7,458	4,846	2,932
Spanish Club	6,793	3,007	6,214	3,586
Photo Club	638	2,917	2,787	768
Art	532	-	-	532
Class of 2007	-	4,896	3,611	1,285
Class of 2005	1,217	-	1,007	210
Class of 2006	1,139	-	-	1,139
Mock Trial	1,515	1,000	818	1,697
Debate Club	1,374	3,743	3,319	1,798
Spencerian	2,140	9,697	10,596	1,241
	<u>138,446</u>	<u>276,913</u>	<u>261,526</u>	<u>153,833</u>
 Total	 <u>175,918</u>	 <u>334,393</u>	 <u>316,999</u>	 <u>193,312</u>

See accompanying independent auditor's report.

## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Revenues by Source and Expenditures by Function

## All Governmental Fund Types

## For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
Property tax	5,692,388	5,323,578	5,027,648	4,845,170
Local option sales tax	927,646	1,359,039	652,165	-
Mobile home tax	13,040	13,474	12,971	14,065
	<u>6,633,074</u>	<u>6,696,091</u>	<u>5,692,784</u>	<u>4,859,235</u>
State sources:				
State foundation aid	7,088,966	7,074,460	6,652,430	6,688,131
M & E replacement	-	-	24,433	57,788
School improvement and technology funding	-	-	-	-
Education Excellence Program:				
Phase I	19,886	19,899	19,119	21,325
Phase II	154,625	159,852	159,173	162,448
Phase III	-	-	-	40,364
Iowa Early Intervention Block Grant	115,945	114,710	115,408	110,213
AEA flow-through	601,508	600,878	591,211	616,973
Non-public transportation aid	20,970	24,223	18,993	24,088
Non-public textbook aid	3,404	3,430	3,184	2,953
At risk program grants	66,268	65,605	65,773	67,967
Vocational education aid	35,000	35,192	42,012	38,237
Revenue in lieu of taxes - military credit	5,273	5,240	8,665	12,229
Teacher Quality/Salary Improvement	190,891	167,304	150,061	135,558
Professional Development	64,934	-	-	-
Evaluator Training	-	1,000	-	-
Teacher Mentoring Program	9,100	7,800	9,100	13,000
	<u>8,376,770</u>	<u>8,279,593</u>	<u>7,859,562</u>	<u>7,991,274</u>
Federal sources:				
Title I Grants to Local Educational Agencies	206,385	176,695	178,881	181,078
Improving Teacher Quality - Grants to States	77,156	76,845	79,517	76,476
Tech Prep Demonstration Grants	2,300	-	-	-
Special Education - Grants to States (Success 4)	-	-	-	15,110
Special Education - Grants to States (IDEA Part B)	109,152	145,209	79,342	52,173
Vocational Education - Basic Grants to States	14,450	9,244	15,296	16,006
Innovative Education Program Strategies	5,276	8,242	11,207	11,247
Safe and Drug Free Schools and Communities	9,435	-	4,426	10,675
Star Schools	-	31,005	6,005	68,995
Grants for Assessments and Related Activities	12,132	12,438	12,438	10,365
Carol A. White Physical Fitness Grant	-	-	19,562	385,438
Iowa Demonstration Construction Grant	100,000	400,000	-	100,000
Comprehensive School Reform Demonstration	19,593	55,000	82,500	67,500
Medicaid Reimbursement	266,184	76,352	-	-
Charter School	50,000	-	-	-
	<u>872,063</u>	<u>991,030</u>	<u>489,174</u>	<u>995,063</u>
Total	<u>15,881,907</u>	<u>15,966,714</u>	<u>14,041,520</u>	<u>13,845,572</u>

See accompanying independent auditor's report.

## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY06	<u>50,542</u>
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY06	220,885
Food and Vegetable Pilot Grant	10.555	FY06	20,708
School Breakfast Program	10.553	FY06	<u>45,598</u>
			<u>287,191</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6102-G-06	206,385
Innovative Education Program Strategies	84.298	FY06	5,276
Improving Teacher Quality - Grants to States	84.367	FY06	77,156
Grants for Assessments and Related Activities	84.369a	FY06	12,132
Comprehensive School Reform Demonstration	84.332	FY06	19,593
Tech Prep Demonstration Grants	84.353	FY06	2,300
Vocational Education - Basic Grants to States	84.048	FY06	14,450
Safe and Drug Free Schools and Communities	84.186	FY06	9,435
Iowa Demonstration Construction Grant	84.215K	FY06	100,000
Prairie Lakes Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY06	<u>109,152</u>
Total			<u><u>893,612</u></u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Spencer Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Board of Education of the  
Spencer Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Spencer Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 17, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Spencer Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-II-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spencer Community School District and other parties to whom Spencer Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

October 17, 2006

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of the  
Spencer Community School District:

**Compliance**

We have audited the compliance of Spencer Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Spencer Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Spencer Community School District's management. Our responsibility is to express an opinion on Spencer Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spencer Community School District's compliance with those requirements.

In our opinion Spencer Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of Spencer Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Spencer Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Spencer Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 06-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 06-III-A is a material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spencer Community School District and other parties to whom Spencer Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

**BRUCE D. FRINK**  
**Certified Public Accountant**

October 17, 2006



SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.027 - Special Education - Grants to States (IDEA Part B)
  - CFDA Number 10.550 - Food DistributionSchool Nutrition Clustered Programs:
  - CFDA Number 10.555 - National School Lunch Program
  - CFDA Number 10.555 - Fruit and Vegetable Pilot Grant
  - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Spencer Community School District did not qualify as a low-risk auditee.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

06-II-A      Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa such makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the district has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

**Part III: Findings For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

CFDA Number: 84.027 Special Education - Grants to States (IDEA Part B)

Federal Award Year: 2006

US Department of Agriculture

Passed through Prairie Lakes Area Education Agency

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

10.555 Fruit and Vegetable Pilot Grant

Federal Award Year: 2006

US Department of Agriculture

Passed through Iowa Department of Education

CFDA Number: 10.550 Food Distribution

Federal Award Year: 2006

US Department of Agriculture

Passed through Iowa Department of Education

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part III: Findings For Federal Awards:**  
**continued:**

06-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa such makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the District has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

06-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-IV-B Certified Budget - Expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the support services and non-instructional functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

06-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part IV: Other Findings Related to Required Statutory Reporting:**  
**continued:**

06-IV-E      Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ross Brockshus, Board President Part owner of Del's Garden Center, Inc.	Repairs and seed	\$ 1,655

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with Mr. Brockshus do not appear to represent conflicts of interest since they totaled less than \$2,500 for the fiscal year.

Recommendation - The District should continue to review these expenditures to ensure continued compliance.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

06-IV-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

06-IV-G      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

06-IV-H      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

06-IV-I      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

06-IV-J      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.